



Global Impact Credit

Strategy Focus

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Strategy summary

- The Global Impact Credit Strategy has a dual mandate - to seek positive environmental or social impact and to provide capital growth. The benchmark of the strategy is the Bloomberg Global Aggregate Credit Index.
- Our investment philosophy is centered around creating a material and measurable impact through our investments, while also promoting impact through our scale and resources and through collaborating with clients to achieve desired, long-term outcomes.
- Our fundamental research platform and dedicated Responsible Investing (RI) team—Our fundamental research platform in collaboration with our dedicated RI team which is focused on sustainability factors—provide the breadth of resources and global perspective necessary in building a positive impact portfolio.
- Our proprietary impact framework is aligned to the United Nations Sustainable Development Goals (UN SDGs). It helps us assess business activities and quantify their alignment to two impact pillars: climate and resource impact and social equity and quality of life and six impact sub-pillars.
- Our investment process isn't limited to ESG-labeled debt. We look to a broad opportunity set, spanning across the corporate and credit universe to identify the highest impact-aligned issuers.
- We aim to be additional, demonstrated by our commitment to promote and progress the impact agenda. This includes directing fresh capital toward desired outcomes, impact-oriented company engagement, and the associated feedback loop. We also aim to drive further additionality through the origination of debt.

Our Impact Charter

The core tenets of the portfolio's investment philosophy include:

1. Materiality

All our investments start with a security-by-security assessment of impact materiality. Our RI team defines our impact universe through careful screening; a deep understanding of deep understanding of sustainability factors; industry-specific, forward-looking impact inclusion criteria; and an evaluation of the credibility of the ESG labeled bonds through our proprietary framework.

2. Measurability

Given our mandate's dual nature, impact measurement is integral to the investment process. We quantify the alignment of every security with our two impact pillars and the UN SDGs. Additionally,

each investment thesis embeds security-specific key performance indicators (KPIs) as our analysts collaborate with the portfolio management team to define our investment thesis.

3. Additionality

We believe impact is achieved within an investment portfolio in more ways than simply owning certain types of issuers or securities. Our approach involves directing fresh capital towards desired impact outcomes alongside impact-oriented company engagements, proxy voting, origination of debt, and the associated feedback loop.

Done well and in partnership with our fundamental and responsible research analysts, we believe this will potentially create benefits not only for our Global Impact Credit Strategy clients, but also for other investment professionals.

4. Resiliency

Given the complexity and nonlinear nature of delivering impact and the patience it necessitates, adopting a long-term and holistic view when investing to solve sustainability challenges is necessary. We integrate our security perspectives to identify, in our view, underappreciated impact and mispriced economic return improvement on a truly global, security-by-security basis.

Portfolio Management

Matt Lawton is the portfolio manager for the Global Impact Credit Strategy and has ultimate responsibility for all decisions regarding investment strategy, portfolio construction, and security selection. He has 18 years of investment experience and also manages the Global Impact Short Duration Bond Strategy, alongside being the Head of Impact Fixed Income. .

Understanding the Investment Universe

Given our dual mandate, we use a custom universe which we define through two key processes: exclusionary using our proprietary T. Rowe Price Impact Exclusion List and inclusionary through impact analysis. The impact exclusion list excludes areas of the global economy that, in our view, generate significant harm and stocks that screen* individually on conduct-based metrics.

Please refer to The T. Rowe Price Exclusion policy for more details on these exclusions:



[TRP Exclusion Policy](#)

The inclusionary process embeds a materiality assessment based on revenues to evaluate whether an issuer's product or services deliver positive impact. To be eligible for inclusion in one of our impact portfolios, at least 50% of a company's revenues or profits must be aligned with at least one impact sub-pillar, or use of proceeds allocated to projects must be aligned to at least one impact sub-pillar. It also includes an impact analysis, which is based on Five Dimensions of Impact, an external industry-recognized framework. This more qualitative stage of the process helps us assess a company's ability to deliver impact holistically, including the risks that may affect its ability to deliver the targeted impact.

For ESG-labeled bonds, our proprietary ESG Bond Framework evaluates the level of assurance that a bond's use of proceeds will be directed at activities generating positive environmental and/or social impact. It evaluates environmental, social, and governance (ESG) bonds on the issuer's ESG profile; frameworks, standards, and verifications; use of proceeds; and post-issuance reporting.

Once a potential investment's impact credentials have been thoroughly assessed, we apply an in-depth, fundamental analysis overlay focusing on the durability of the underlying business model; industry and management quality; and valuation.

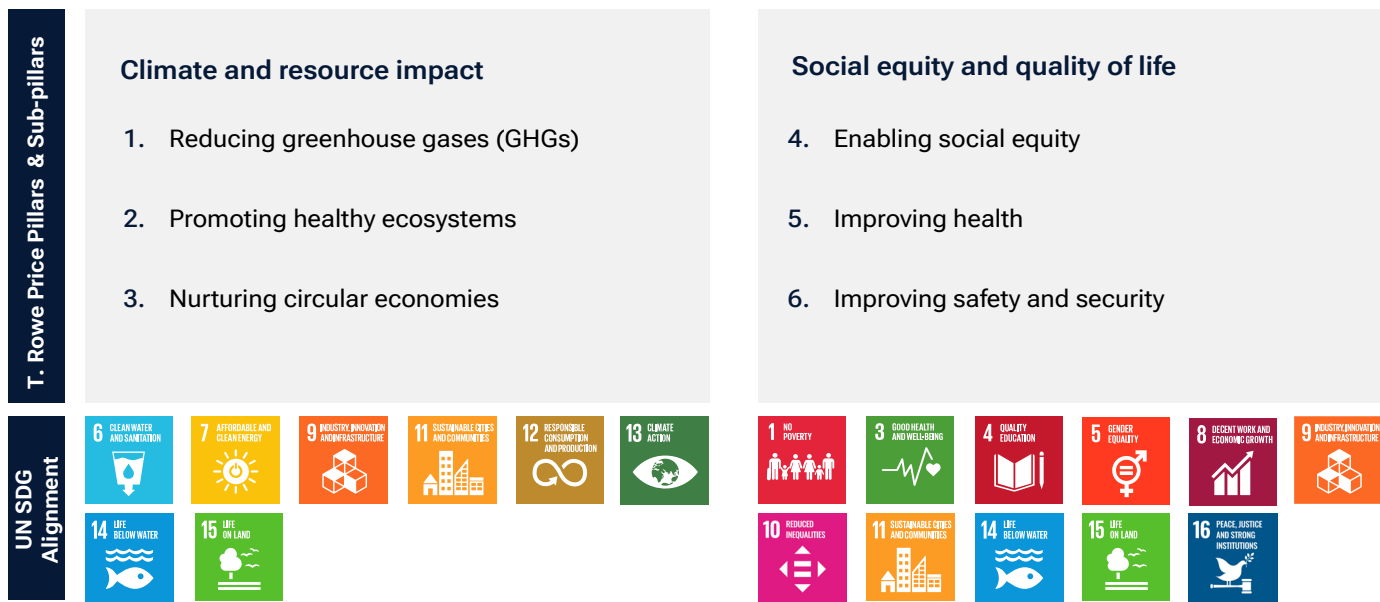
Portfolio Construction

In constructing the portfolio, Matt leverages the impact and fundamental analysis undertaken by the global credit and RI research teams and combines this with top-down considerations, such as the macroeconomic outlook and relative value across credit sectors. Matt applies his judgment to construct a global portfolio of around 75 to 150 issuers, while managing risk exposure at both the individual issuer and portfolio level.

Collaboration between our Global Impact Credit Strategy, Global Impact Equity Strategy, and US Impact Equity Strategy teams is also key when finding true impact investments. Matt regularly meets with Hari Balkrishna and David Rowlett, the portfolio managers for the Global Impact Equity Strategy and US Impact Equity Strategy, respectively, to discuss new ideas. Through these meetings, Matt is able to analyze and enrich impact ideas while maintaining full discretion over the portfolio's investment decisions and overall construction.

* Screening is generally applied only to the relevant issuer or company itself and to its subsidiaries. Minority holdings (less than 50% ownership) are generally not considered for screening purposes. Some portfolios may apply additional screens as required to satisfy certain local market / labels requirements.

Two impact pillars guiding our decision-making



T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

The UN SDGs encompass 17 goals. For further information, please visit <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

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Accelerating Impact Through Active Ownership

We believe impact is achieved within an investment portfolio in more ways than simply owning and capturing the economics and activities of certain types of companies. Our approach involves directing fresh capital toward desired impact outcomes alongside impact-oriented company engagements, origination of debt, and partnership with issuers.

Engagement Program

Our engagement programme aims to ensure our investments and impact objective are successfully delivered. This includes engaging with the underlying issuers or companies with the dual objective¹ of:

- positive impact outcome by accelerating or enhancing such outcome in line with the investment's impact thesis; and/or
- Mitigating any material negative environmental or social impacts resulting from pursuing the impact outcome in line with the investment's impact thesis.

The engagement program is established at the issuer level, at the time of purchase, linking it to the desired impact outcome. We identify engagement topics through our proprietary ESG/ impact analysis and our analysts' fundamental research.

¹In alignment with jurisdictional regulatory requirements.

We systematically monitor the progress of our engagements throughout the life of the investment and measure it against specific milestones and KPIs.

Additionality Through Partnership

To further promote additionality, we collaborate with issuers in the origination of debt. Through these partnerships, we provide financial support for impact transactions that might otherwise go unfunded, and steer allocation of proceeds towards more underfunded SDGs.

Leveraging our expertise in sustainable finance, we guide the development of financing frameworks that enable the scaling of impactful issuances, ensuring that issuers can achieve both meaningful impact and market scalability.

For example, we have acted as anchor investors in several "Impact Outcome" transactions with multilateral development banks. These deals deliver financial benefits when specific positive outcomes—such as increases in endangered species populations—are achieved. Additionally, we are a key originator of debt in the emerging blue bond market.

Four Factors Underlining Our Approach to Impact Measurement

Evaluating investments throughout the process can help create a holistic view of a company's impact



Alignment

Quantify alignment with our two impact pillars and six sub-pillars

To create a robust and measurable impact universe



Outcomes

Measure outcomes and impact

Using the theory of change, quantifying wherever possible, using external data



Fundamentals

Assess fundamentals through an impact lens

Using the Impact Management Project's five dimensions of impact to gain a deeper understanding of a business' impact footprint



Risk

Understand impact risk

Qualify risks and track evolution and impairment of the impact thesis

The Impact Management Project, a project by Bridges Fund Management Ltd. (company number 10401079).

Going Beyond Green Bonds

At T. Rowe Price, we feel impact investing in fixed income is not confined to the ESG -labeled bond market. Impact can be captured through directing capital to issuers providing positive environmental or social impact through their everyday activities. Our investment process is therefore not limited to green bonds as we look to a broad opportunity set, spanning across the corporate and credit universe to identify the highest impact-aligned issuers. By engaging and investing in companies outside the ESG-labeled debt market, we can deploy our scale and resources to help progress an issuer's impact agenda.

Examples include a not-for-profit children's hospital or a development bank that inherently carries a social mission through its investment and lending activities.

Measuring Impact

Given our mandate's dual nature, impact measurement and management is integral to our investment process. We believe that measuring and managing impact fulfills three objectives:

1. To monitor our investments' progress toward clearly defined outcomes through key performance indicators (KPIs).
2. To assist in our corporate engagements and to ensure that we identify any deviation from our impact and investment thesis.
3. To report progress and impact delivery to our clients.

We use the five dimensions of impact framework to carry the impact due diligence of a given stock. This framework was developed by the Impact Management Project, an impact

practitioner community of over 2,000 organizations. This framework leads to assessing a company's ability to deliver impact on a holistic basis, including the risks that may affect its ability to deliver the targeted impact.

The five dimensions are:

1. What is the impact goal?
2. Who experiences the outcome?
3. How much of the outcome is occurring (scale, depth, and duration)?
4. Contribution—Would this change likely have happened anyway?
5. Risk—What is the risk to people and the planet if the impact does not occur as expected?

Within this process and depending on data availability, we also use guidance and metrics from the IRIS+ Catalog of Metrics, developed by the Global Impact Investing Network (GIIN). This analysis leads us to formalize an impact thesis, highlight negative externalities and risks, and define KPIs for each stock.

As part of our approach to impact measurement, we use a "Theory of Change" model, which we believe provides a clear and comprehensive framework to evaluate how the efforts of each holding is delivering impact, through the measurement of achieved outcomes.

In our annual impact report, we detail outcomes at the company level based on the KPIs and provide several securities case studies in which we discuss what we are monitoring to improve measurement and/or track the company's progress toward its impact goal.

Material Risks – The following risks are materially relevant to the portfolio:

ABS and MBS – Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) may be subject to greater liquidity, credit, default and interest rate risk compared to other bonds. They are often exposed to extension and prepayment risk.

Contingent convertible bonds – Contingent Convertible Bonds may be subject to additional risks linked to: capital structure inversion, trigger levels, coupon cancellations, call extensions, yield/valuation, conversions, write downs, industry concentration and liquidity, among others.

Credit – Credit risk arises when an issuer’s financial health deteriorates and/or it fails to fulfill its financial obligations to the portfolio.

Default – Default risk may occur if the issuers of certain bonds become unable or unwilling to make payments on their bonds.

Derivative – Derivatives may be used to create leverage which could expose the portfolio to higher volatility and/or losses that are significantly greater than the cost of the derivative.

Emerging markets – Emerging markets are less established than developed markets and therefore involve higher risks.

Geographic concentration – Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the portfolio’s assets are concentrated.

Hedging – Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely.

High yield bond – High yield debt securities are generally subject to greater risk of issuer debt restructuring or default, higher liquidity risk and greater sensitivity to market conditions.

Interest rate – Interest rate risk is the potential for losses in fixed-income investments as a result of unexpected changes in interest rates.

Security Liquidity – Any security could become hard to value or to sell at a desired time and price.

General Portfolio Risks

Conflicts of Interest – The investment manager’s obligations to a portfolio may potentially conflict with its obligations to other investment portfolios it manages.

Counterparty – An entity with which the portfolio transacts may not meet its obligations to the portfolio.

Custody – In the event that the depository and/or custodian becomes insolvent or otherwise fails, there may be a risk of loss or delay in return of certain portfolio’s assets.

Cybersecurity – The portfolio may be subject to operational and information security risks resulting from breaches in cybersecurity of the digital information systems of the portfolio or its third-party service providers.

ESG – Environmental, social or governance event(s) or condition(s) may occur, which could have/result in a material negative impact on the value of an investment and performance of the portfolio.

Investment Portfolio – Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Inflation – Inflation may erode the value of the portfolio and its investments in real terms.

Market – Market risk may subject the portfolio to experience losses caused by unexpected changes in a wide variety of factors.

Market Liquidity – In extreme market conditions it may be difficult to sell the portfolio’s securities and it may not be possible to redeem shares at short notice.

Operational – Operational failures could lead to disruptions of portfolio operations or financial losses.

Sustainability – Portfolio that seek to promote environmental and/or social characteristics may not or only partially succeed in doing so.

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

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